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INFORMATION REPORT

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THIS IS UNEVALUATED INFORMATION

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1. In the three weeks following 28 Aug 53, a chaotic economic situation suddenly appeared in Shanghai without any apparent reasons, according to a report by a staff member of The Freeman, a semi-weekly published in Hong Kong under the editorship of Tao Shun-sheng (陶舜生), one time minister of agriculture and forestry and former leader of China's Youth Party.
2. [REDACTED] there was a serious shortage of commodities on the Shanghai market, resulting in a sharp increase in prices. Nearly all retailers' show-cases and shelves were empty and supplies were being cut off by the state-operated wholesale houses. Prices generally jumped up 20% to 40% overnight. After two weeks, some goods went up 100% to 120% in price.
3. The most severely affected were structural material and chemicals. For instance, iron steam pipes jumped up from 82,000 to 138,000 J.M.P. per foot. Steel rods, automobile parts, window-panes and lead were all doubled in price. Next were drugs which were generally up 100% and hard to get. Cotton goods, cosmetics and daily necessities jumped up 60% to 80%. A pair of rubber shoes (sneakers) jumped from 28,000 to 36,000 J.M.P.; an ordinary towel from 5000 to 8000 J.M.P. The most common dental paste was upped from 6000 to 10000 J.M.P. per tube. A cheap grade shirt was increased from 24,000 to 40,000 J.M.P. Food products were also up in price. Rice, wheat, and other staples were generally up 20% to 70%. Dried bamboo shoots were increased from 640,000 to 1,100,000 J.M.P. per picul. Monk beans, soy beans and sesames were up 40%. The state-operated supply houses, though maintaining the old price level, had stopped selling wholesale and limited each buyer to one quart of monk beans, soy beans and sesames.
4. This sudden increase in prices caused among the Shanghai residents a panic almost as great as at the time of the Gold Yuan crisis during the declining days of the Nationalist regime.
5. On September 4, the Liberation Daily in Shanghai noted this situation by blaming the private merchants for rushing to buy goods from the state-operated wholesale houses and then hoarding all they had, thereby causing shortages and price increases. It further charged that some merchants even bought at blackmarket price, hoarded the goods and hoped to resell them at a still higher price. Thus, the existence of

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blackmarket in Shanghai is beyond doubt. But how the blackmarket was created and operated may remain a matter of conjecture.

6. According to a Shanghai writer in Hong Kong, the blackmarket came into being primarily because of the existence of corrupt elements in the state-operated wholesale houses. This source stated that at the early sign of shortages, all private merchants rushed their orders to the wholesale houses. The cadres in charge refused to fill their orders on the ground of short of supplies and then approached the merchants individually and privately for "favors". The least they asked for was invitation to wine and dine or some other form of entertainment. More often than not, they wanted bribes in money. Generally they demanded an additional 20% to 40% above the official price before they filled the orders, thereby forcing the retail prices up and creating a saturated blackmarket.

7. Another form of corruption was also known to the public. The buyers (Communist Cadres) for government-owned and -operated department stores generally asked for "gifts" from private manufacturers before they placed their orders. In order not to lose any money at the contract price, the private manufacturers had to use cheaper material or lower grade of workmanship. Then it came to the examination of the finished product. The private manufacturers had to bribe the merchandise inspectors (also Communist Cadres) again before their deliveries were accepted. Numerous cases of this kind had been uncovered by the Communist authorities.

8. As usual, the Communists, instead of placing the blame on their own men, generally held the private merchants responsible for cheating the government and people. At most they would say that the irregular practices of the private merchants had corrupted some of the officials who, meanwhile, have been fattened on gifts and bribes.

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